

THE COMMONWEALTH OF MASSACHUSETTS

EXECUTIVE DEPARTMENT

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MITT ROMNEY
GOVERNOR

KERRY HEALEY
LIEUTENANT GOVERNOR

June 24, 2005

The Honorable Patrick Wood, III
Chairman
Federal Energy Regulatory Commission
888 First Street, NE
Washington, D.C. 20246

Re: ISO New England LICAP Proposal
Docket No. ER 03-563
NESCOE Petition, Docket No. EL04-112

Dear Chairman Wood:

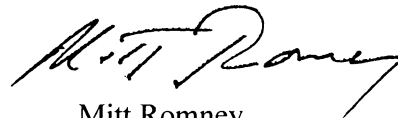
As you know, Massachusetts has been closely monitoring the proposal of ISO-New England (ISO-NE) to develop and implement a locational capacity (LICAP) market in the New England region. Recently, my New England colleagues wrote to you on this important issue expressing their concerns, and I want to take this opportunity to do the same.

While Massachusetts shares the Federal Energy Regulatory Commission's (FERC) interest in an effective capacity mechanism to secure an adequate supply of electricity to serve our region, it is our view that the LICAP proposal is a broader, more costly approach than is necessary to assure the region's reliability. Cost estimates of the LICAP proposal range from \$10 to \$13 billion across New England over the next five years, or approximately a 25 percent increase in the energy portion of the average ratepayer's electricity bill – both residential and commercial customers. This figure translates to approximately \$6.4 billion over five years for Massachusetts alone, which is simply unacceptable. This type of rate shock will have a detrimental effect on Massachusetts and the region's economy.

Massachusetts strongly believes that the ISO-NE has prematurely pursued the development of a LICAP market, rather than first pursuing the development of other solutions that may be less costly for our consumers. The ISO-NE is in the process of developing a locational reserves market to address specific, targeted operating reserve needs that would support fewer required generators. The development of an appropriate capacity market to address regional adequacy issues should be viewed in the context of a regional market plan that considers the existing locational energy market and the development of the locational reserves market, in addition to other contemplated mechanisms. If after the implementation of more cost-effective solutions a resource adequacy issue persists, a further intervention can be developed to solve these problems, while minimizing consumer costs and market disruption.

Given the significant cost associated with this issue to our region, it is important that the FERC consider the other proposals currently under development that may in fact provide a more cost effective solution, while ensuring the adequacy of the region's electricity supply. As always, we look forward to working with the FERC on these important matters so that our consumers and businesses are well served by these important policy initiatives.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mitt Romney", written in a cursive style.

Mitt Romney

cc: The Honorable Pete Domenici
The Honorable Jeff Bingaman